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The wealth of a nation:

The level & distribution of wealth
in New Zealand

community

DAVID SKILLING | ARATI M WALDEGRAVE
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EXECUTIVE SUMMARY

Wealth holdings in New Zealand are highly concentrated and many New Zealanders are struggling to get ahead financially, living from week to week with no meaningful wealth accumulation. There is also a sense that getting ahead is not as easy as it was 30 or 40 years ago, and a concern that things are getting worse not better.

The pressures on wealth accumulation by New Zealanders come in many different forms; high and rising student loan debt, rising house prices and the effect that this has on affordability for first home buyers, and the rapid increase in household debt. Although these problems are distinct in some senses, together they reflect a broader trend that increasingly compromises the ability of New Zealand households to advance financially. And these challenges affect most New Zealanders. This is not a problem that is confined to those on low incomes, but affects many that would traditionally be thought of as the comfortable middle class.

The debate around people's financial welfare often focuses on the adequacy of people's income. Although income adequacy is obviously important, there is increasing awareness that asset ownership is also a fundamental determinant of people's economic and social welfare.

This paper focuses on the ownership position of New Zealand households. Using a variety of data sources, as well as responses from a series of over 70 in-depth interviews with New Zealanders, this paper examines the level and distribution of wealth in New Zealand, and examines the process of wealth accumulation for New Zealanders. What drives wealth accumulation, and what

types of assets do people acquire through their lifetime? We also compare the New Zealand experience to that of other Anglo countries (Australia, Canada, the UK and the US) and investigate how the level and distribution of wealth in New Zealand is likely to change through time. The key findings are that:

Wealth holdings are highly concentrated, with many New Zealanders having no wealth – or negative wealth

The 2001 Household Savings Survey shows that the wealthiest 10% of the population hold over 50% of total wealth and the bottom half of the distribution holds less than 3%. Median wealth in New Zealand is \$68,300, with only about 28% of the population holding wealth greater than \$200,000 and 43% holding more than \$100,000. Over 800,000 New Zealanders have less than \$20,000 in wealth.

The degree of inequality in New Zealand's wealth distribution is about twice that of income inequality in New Zealand. This is fairly standard across Anglo countries, but New Zealand is unusual in having a relatively high proportion of people with negative wealth (i.e. with more liabilities than assets); 16% of New Zealanders have negative wealth, compared with 4% in Australia and 8% in the US.

Many people do not accumulate wealth through their lives

Many of those with low wealth holdings are young, and will accumulate some wealth over their lifetime. However, many New Zealanders never accumulate wealth. Even at the end of their working lives, about 10% of 60-64 year olds had no

wealth or negative wealth in 2001 and 50% had less than \$200,000. People who earn below the median income struggle to accumulate wealth, and family structure also has a profound effect on wealth accumulation.

Most New Zealanders invest in housing rather than financial assets

The asset of choice is real estate, with the balance sheets of most New Zealanders dominated by housing rather than financial assets. While around 70% of New Zealand households own a home, financial assets are held by less than 20% of the population. In general, it is only the wealthiest households in New Zealand that hold both property and financial assets. This composition looks different from that observed in other countries, where there is a far greater tendency to own financial assets as well as a home.

In aggregate, New Zealanders hold little wealth compared to other countries

Across the distribution, New Zealanders do not hold much wealth. New Zealand's level of household wealth is considerably lower than in other countries. The level of overall household wealth as a share of disposable income has grown slowly over the past decade, and household financial wealth as a share of disposable income has reduced significantly.

Some of this difference is due to the generosity of public provision of retirement income in New Zealand relative to other Anglo countries. However, this provides only a partial explanation for the lower level of household wealth in New Zealand compared to other Anglo countries. Rather, much of the difference seems to be due to the policies and institutions that promote

wealth accumulation in other Anglo countries – like savings policies, assisted home ownership and so on – and that are absent in New Zealand.

The prospects for wealth accumulation by New Zealanders are likely to worsen over the next several decades

New Zealand's current level and distribution of wealth reflect the economic, social and policy environment that has prevailed over the past several decades. In general, this environment has been supportive of wealth accumulation. However, several trends that have emerged over the past decade and that look set to continue into the future suggest that the environment will not be as favourable for wealth accumulation by New Zealand households. In particular, sharply declining home ownership rates, high and rising levels of student loan debt, and rising household borrowing all suggest that many people will accumulate less wealth over their lifetime than has been the case historically in New Zealand.

It seems likely that the proportion of New Zealanders with limited wealth is likely to increase over time, and the overall level of household wealth will be under pressure. This has the potential to have a significant effect on the functioning of New Zealand society.

However, the lesson from other Anglo countries is that household wealth accumulation behaviour is affected by public policy, and that it is possible to even out the wealth distribution – as has been done in Australia. Options are available to New Zealand to address these trends in the level and distribution of ownership.

